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AMERICAN FRUIT AND PRODUCE AUCTIONS [1]

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DEVELOPMENT OF FRUIT AND PRODUCE AUCTIONS

Fruits and produce have been sold at auction in the United States for nearly a century. Sales of Smyrna raisins, currants, sweet potatoes, Malaga grapes, oranges, and lemons were reported in a New York commercial journal as early as 1827. The importation of Italian lemons led to the establishment a few years later of regular auction sales for fruit.

Fruit auction sales have been conducted in Philadelphia and Chicago since 1885, and in Baltimore, Minneapolis, and St. Paul since the late nineties. Auctions were started in Buffalo, Toledo, and Kansas City, but they were not supported by the trade and soon failed. Of the auction companies which are now engaged in this business, only four were in operation prior to 1900. The first of these was organized in 1839 in New York City, the second in Boston in 1847, the third in Cleveland in 1890, and the fourth in New York City in 1897. New Orleans and St. Louis entered the field about 1900, at which time there were 13 auction companies in operation. Since then there have been some failures, consolidations, and re-

[1] The American fruit and produce auction companies have given much assistance in the compilation of the material embodied in this publication. Without their helpful cooperation its preparation would have been impossible.

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organizations, but there has been a gradual increase in the number of such organizations.

The selling of fruits and produce at auction has increased substantially in recent years. It is developing into a more and more important factor in the distribution of these commodities, and is steadily gaining a larger place in the attention of the public.

In addition to the established auction companies, which in most cases carry on a regular business throughout the year in the large terminal markets, a number of strawberry sales have been conducted at shipping points. Such sales have been carried on successfully for several seasons at Hammond, La., and have been tried at Monett, Mo., and Judsonia, Ark. At Hayward, Calif., auction selling has become rather well established in recent seasons in disposing of the green peas controlled by an association of growers. Two attempts have been made to auction California citrus fruits at point of origin.

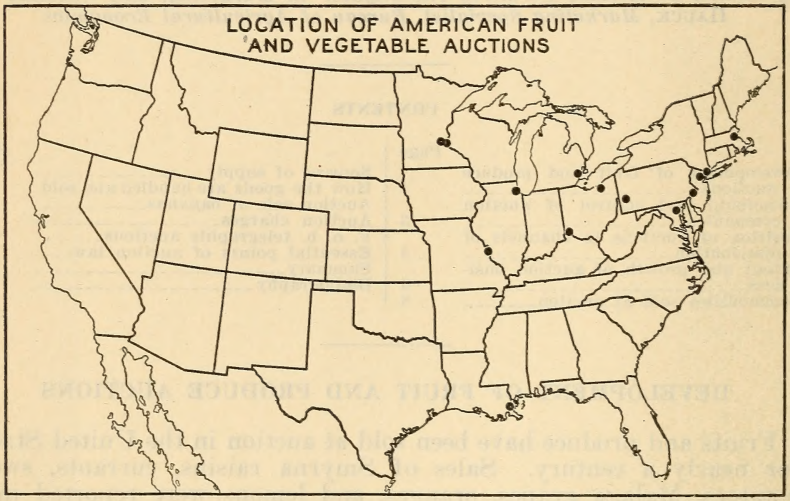

FIG. 1.—Auctions operate in the more populous parts of the United States

The sales were started in Los Angeles in February, 1910, and continued until the severe freeze in December, 1912. In 1914 an attempt was made by the department of farms and markets of New York State to conduct fruit auctions in the orchard, but after a few sales which met with somewhat indifferent success they were discontinued.

At present there are 24 fruit and produce auction companies operating in 14 of the principal distributing centers of the United States. (See Fig. 1.) This number includes two new companies which were organized in 1923 for the purpose of selling car lots of fruits and vegetables at auction while the cars are still at the loading stations, in transit, or in storage. These auctions are commonly referred to as "f. o. b. auctions." Their sales are conducted over leased telegraph wires which connect the sales rooms maintained by each company in various markets.

OWNERSHIP AND CONTROL OF AUCTION COMPANIES

On the basis of the controlling interest, the fruit and produce auctions of the United States may be grouped in two divisions: (1) Auctions independent of trade control; (2) auctions controlled by the trade. In the second group are some companies in which the stock control is held by receivers, some in which the stock control is held by buyers, and some in which the stock is held by both buyers and receivers but with neither group in control. Regardless of the classification in which a given auction company is placed, the receivers doing business with the company are frequently in a position to determine its policies to some extent. The degree of success which an auction company attains depends largely upon the nature of the accounts it has with its receivers and the support it obtains from them. Consequently the receivers' demands are likely in any case to receive serious consideration from the stockholders.

The view is held by some elements of the trade that it is prejudicial to their interests for the control of an auction company to be in the hands of a few powerful dealers or organizations directly interested in the supplies which are sold by the auction. Rightly or wrongly, these buyers and receivers consider that under such conditions it is possible for the supplies, the bidding, the rates and charges, etc., to be so regulated as to give more or less of an advantage to the stockholders of the auction company.

The desire of the trade for impartiality in the services rendered and the charges imposed is causing the gradual discontinuance of certain practices that at times have been a source of dissatisfaction. In some cities these causes, together with a desire for participation in the profits earned by the auctions, have brought about reorganizations of existing companies or the founding of new companies. Auctions have become better established as permanent organizations in the last few years and greater uniformity in their methods and practices is apparent.

At times some of the auction companies will purchase outright or make cash advances on car lots which they believe can be sold at auction to the financial advantage of the company. Local factors inimical to the auction have endeavored at times to boycott the auction and thereby cause it to abandon its sales. In such cases the auctions sometimes have resorted to direct purchases in order to have sufficient offerings to continue sales and to restore a normal auction market. The company, however, which uses its funds continuously for speculative purposes finds it more or less difficult to retain the confidence of its patrons.

It is maintained by some that there is a decided benefit, particularly to the small buyer and seller, in having the policies and practices of the auction companies controlled by interests entirely independent of the trade, since such organizations are of a semipublic service character and their stockholders have no financial interest in the commodities sold. On the other hand, it is possible that the local situation in some cities would cause the auction business to be unattractive to outside capital and that there would be no auctions in these cities if the dealers themselves did not form and operate the companies. When the stock in an auction company is fairly

evenly distributed among the members of the trade, there seems to be little dissatisfaction within the trade itself, and scant opportunity for manipulation. The buyers, being stockholders in the auction company, patronize it as far as possible and therefore their sales are usually well attended and the bidding is distributed among a large number. Irrespective of the type of organization, any honestly and equitably conducted agency which tends to bring the buying power of the market together and to stimulate active and unrestricted bidding, would seem to exert a stabilizing influence in the market and therefore, in the last analysis, to be a benefit to both buyers and sellers.

Many of the trade auctions have been reorganized since 1915 and the stock holdings have been more widely distributed among the buyers and receivers. In some cases these auctions are organized on a basis which in a sense may be considered as cooperative, in that a discount is allowed to all stockholders, amounting to a fraction of 1 per cent of the gross value of their purchases or sales, payable at stated intervals.

POSITION OF AUCTIONS IN CHANNELS OF DISTRIBUTION

The agencies and channels of distribution for fruits and vegetables are shown in Figure 2. It will be observed that in a general way the distributing agencies shown in this chart may be classified into four main groups, according to their functions:

1. The shippers or country assemblers, who either purchase the goods at shipping points or act as agents of the producer or buyer in assembling, conditioning, and forwarding the products to market.
2. Those dealers who receive the products in car-lot quantities in the terminal markets and break them up into smaller units for distribution. They may be the owners of the products or the agents of the owner or the shipper.
3. Those dealers who purchase their supplies in less-than-carload lots and sell them to the retail distributors.
4. The retailers, who sell to the ultimate consumer.

In its functions the auction clearly occupies a station between the shippers and the retailers, but its actual position in relation to the second and third groups is not so readily determined. On the one hand, the functions of the auction are identical with those of the car-lot wholesaler or the commission merchant; on the other hand, it operates in much the same manner as the jobber and other less-than-car-lot wholesalers. It serves both groups, but functions principally in distributing among the trade in jobbing quantities car lots placed for disposal through the auction.

Customarily, goods handled by the auctions are received from the salaried representatives of large shipping organizations or from the auction receivers and are sold to the buyers of less-than-car-lot units for further wholesale distribution, although in some instances commodities sold by the auction companies are received by them direct from the shippers or country assemblers. Moreover, considerable quantities of goods are auctioned direct to the retail distributors without going through the hands of the jobbers or less-than-car-lot wholesalers.

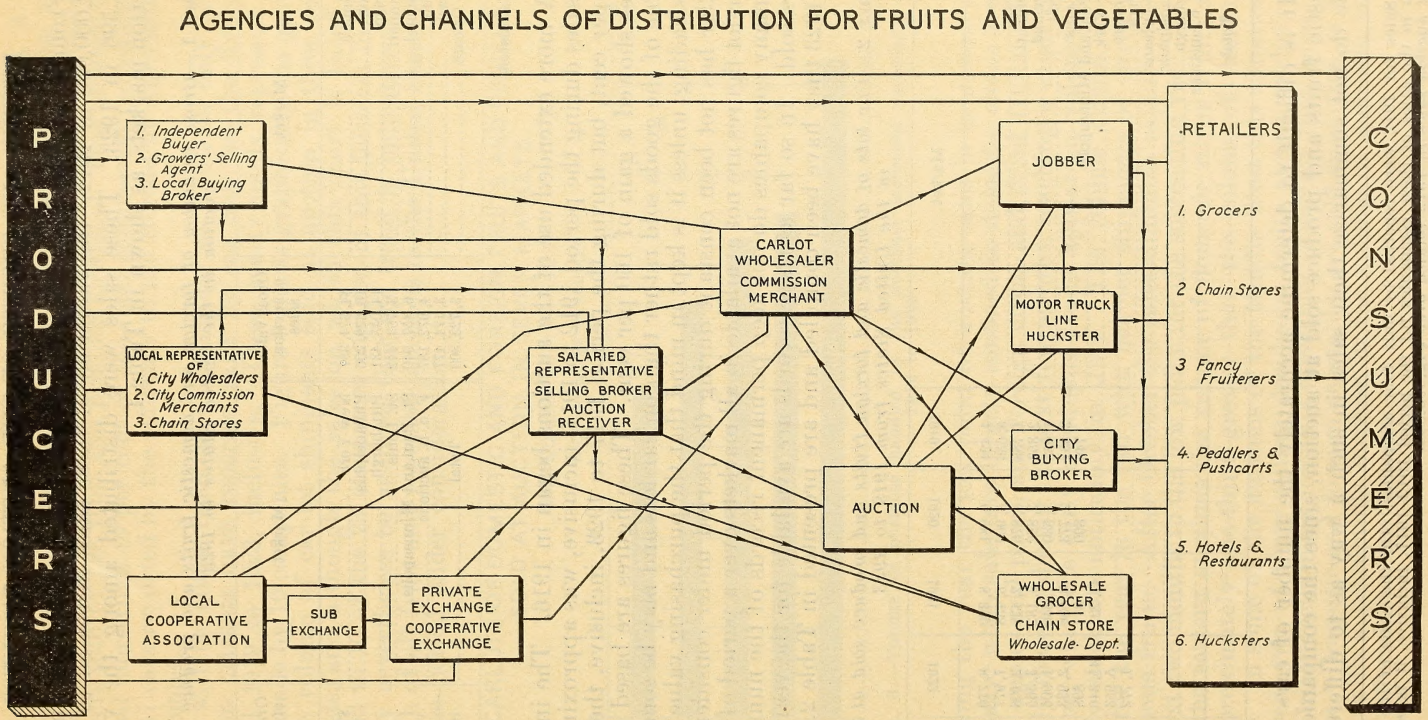

FIG. 2.—The auction occupies a position between the producers and the retailers. It serves both groups, either direct or through other important trade functionaries

EXTENT AND GROWTH OF THE AUCTION BUSINESS

From gross auction sales of fruits and produce approximating $42,000,000 in 1912,[2] the valuation of these sales increased to $164,091,596 in 1923. These sales were distributed among the various auction markets, as shown in Table 1.

TABLE 1.—*Gross valuation of foreign and domestic fruits and produce sold at auction in the United States in 1923*

Market	Gross value of auction sales	Market	Gross value of auction sales
Baltimore	$4,374,387	New York	$72,180,617
Boston	16,629,206	Philadelphia	17,328,371
Chicago	14,045,431	Pittsburgh	6,115,403
Cincinnati	3,753,442	St. Louis	4,989,211
Cleveland	6,357,940	St. Paul and Minneapolis	1,326,182
Detroit	[1] 4,072,187	F. o. b. auctions	[1] 6,021,442
Newark	3,174,477		
New Orleans	[1] 3,723,300	Total	164,091,596

[1] Estimated.

A more extended use of the auctions began in 1916. The increase in sales during the period 1912 to 1917, inclusive, was approximately 50 per cent, but during the period 1917 to 1923, inclusive, the gross sales showed a gain of 160 per cent. These figures are based on the value of the goods sold rather than on car lots and may be somewhat misleading, unless it is kept in mind that the purchasing value of the dollar has not been constant during the period under consideration. Car-lot figures are not available in all markets over a period of years, as many companies do not keep permanent records of the number of cars sold. In so far as these records are available for the years 1919 to 1923 they have been compiled and are presented in Table 2.

TABLE 2.—*Car lots of domestic and foreign fruits and produce sold at auction in the United States from 1919 to 1923*

Market	1919	1920	1921	1922	1923
Boston	4,424	6,981	8,399	8,770	11,284
Chicago	5,656	5,909	6,458	7,977	9,612
Cincinnati	1,753	1,876	2,438	2,106	2,893
Cleveland	2,353	2,882	3,182	3,365	4,884
Detroit	1,053	1,530	1,540	1,906	2,953
St. Louis	2,331	2,773	3,686	2,933	3,848
St. Paul and Minneapolis	748	890	814	898	936
New York			41,225	45,346	50,313
Baltimore				5,653	5,256
Newark				1,772	2,259
New Orleans					2,700
Philadelphia					14,862
Pittsburgh					4,359
F. o. b. auctions					8,835
Total					124,994

It is difficult to determine accurately the number of cars of domestic fruits and produce sold at auction, since the companies as a rule do not summarize their sales in such a way as to differentiate

[2] Sales for 1912 were reported by only four companies. On the basis of the average gain in the sales of these companies for the period 1912–1917, inclusive, it is estimated that auction sales in 1912 totaled over $42,000,000.

between the foreign and domestic products. Nevertheless, it has been estimated from sales records furnished by most of the companies that in 1923 approximately 90,000 cars of domestic commodities were sold by the fruit and produce auctions. This tonnage constituted more than 10 per cent of the total commercial movement of 866,317 cars reported by the railroads to the Bureau of Agricultural Economics.

As will be noted from an examination of Table 2, only seven auction markets have reported sales by car lots for the five-year period 1919 to 1923, inclusive. These yearly totals represent the sales made by 10 companies. Figure 3 shows graphically the growth in the volume of car-lot shipments sold at auction in these seven markets, and although the sales on which this chart is based are limited to 10 of the 23 companies engaged in this business in 1923, it may nevertheless be assumed that the trend is indicative of the growth of all fruit and vegetable auctions in the United States during the period under consideration.

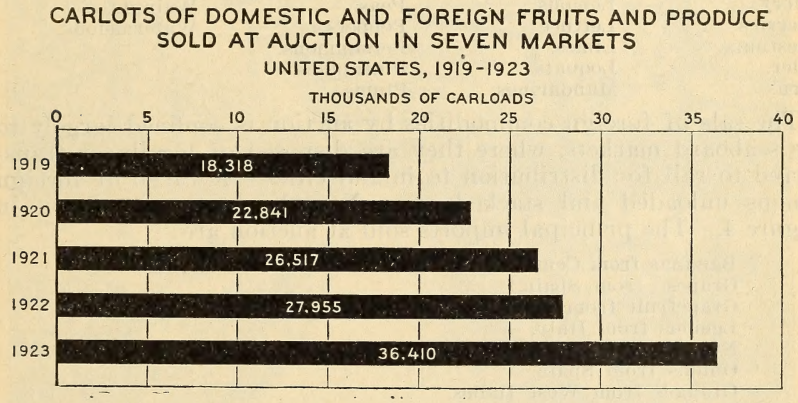

FIG. 3.—Volume of business handled by the auctions increased materially from 1919 to 1923

During the year the low point of auction sales is in January or February, when sales are largely confined to domestic citrus fruits, boxed apples and pears, and foreign citrus and dried fruits. Sales steadily increase during the next few months, reaching a small peak in June, when the early deciduous fruits appear in volume, then usually slack off noticeably in July. The volume climbs to the peak for the year in the fall with heavier shipments of citrus and deciduous fruits. After October the sales diminish rapidly during the next two months to the low point for the succeeding year.

In the eastern auctions the volume of domestic citrus fruits sold is approximately one-third greater than the volume of deciduous fruits. In some of the auctions of the Middle West this situation is reversed, two of them selling deciduous fruits almost exclusively. New Orleans sells more domestic vegetables at auction than any other market. Domestic and foreign vegetables are sold at auction in New York, with a perceptible increase in the volume of domestic vegetables offered in recent seasons.

COMMODITIES SOLD AT AUCTION

Auctions draw their supplies from both foreign and domestic sources, but citrus fruits from California and Florida and boxed apples and other deciduous fruits from the Western States constitute the great bulk of the sales.

In addition to the main supplies, a great variety of commodities is sold in some markets. The following list is taken from 1923 sales in New York City. It is not complete, but serves to give an idea of the wide range of products handled by the auctions in some of the large markets:

Almonds.
Apples.
Apricots.
Asparagus.
Avocados.
Beans
Cabbage.
Cantaloupes.
Celery.
Cherries.
Chestnuts.
Cider.
Corn.
Cranberries.
Cucumbers.
Dates.
Figs.
Garlic.
Grapefruit.
Grapes.
Kumquats.
Lemons.
Lettuce.
Limes.
Loquats.
Mandarines.
Mangoes.
Nectarines.
Olives.
Onions.
Oranges.
Peaches.
Peanuts.
Pears.
Peas.
Peppers.
Persimmons.
Pineapples.
Plums.
Pomegranates.
Potatoes.
Prickly pears.
Quinces.
Raisins.
Satsumas.
Tangerines.
Tomatoes.
Walnuts.
Watermelons.

The sale of foreign commodities by auction is confined largely to the seaboard markets, where they are disposed of locally or transferred to rail for distribution to inland cities. A cargo of foreign lemons unloaded and stacked on a New York pier is shown in Figure 4. The principal imports sold at auction are:

Bananas from Central and South America, West Indies.
Grapes[3] from Spain.
Grapefruit from West Indies.
Lemons from Italy.
Nuts from Italy, Spain.
Onions from Spain.
Oranges from West Indies.
Pineapples from West Indies.

REQUIREMENTS OF AN AUCTION COMMODITY

In the past a widespread misunderstanding of the auction method of selling has prevailed. Some have had the impression that most of the products sold at auction are of poor quality, damaged, or in bad condition, and must be sold immediately at any price. It is believed, however, that this misconception is waning rapidly.

Everything that is merchantable finds a buyer on the auction at some price, but this fact does not justify the shipment of commodities poorly graded or packed. To sell most successfully at auction, all fruits and vegetables, whether of foreign or domestic origin, must be uniformly graded and packed in standardized containers, must be offered at auction in volume sufficient to attract the buying trade, and must appear regularly on the auction when in season. Otherwise there may be a scarcity of buyers in the auction room or a trade more or less completely supplied at private sale, as a result of which the auction can not be expected to secure as satisfactory returns.

[3] Quarantine measures against the Mediterranean fruit fly put into effect in 1924 bar the importation of grapes from Spain.

These outstanding requirements are met by practically all products that have become well established on the auctions. Juice grapes constitute a notable exception. Although the many varieties of juice grapes are extremely variable in quality, and although recognized grades for grapes are only beginning to come into general use, nevertheless this commodity is sold on a large scale at auction. The extensive use of the auctions by sellers of grapes may be accounted for, perhaps, by the constant supply of this commodity moving in large volume during its shipping season, and the unprecedented demand during the past few years.

Containers for auction commodities should be well made, neat, and clean, and when opened should show the contents attractively. Each package should bear a label with a distinctive brand name, in order that the shipment may be distinguished readily from the offerings of other shippers. The label should always represent dependable, uniform quality, because the factors which determine the value of the product are associated in the buyer's mind with the identification mark on the package. The purchaser is forced to base his judgment as to prices on the value of the sample displayed, and unless he has the assurance that it fairly represents the lot he must figure on a sufficient margin to cover the additional risk.

FIG. 4.—A cargo of foreign lemons unloaded and stacked on one of the New York piers

The frequency with which a commodity appears at the auction sales is a factor that has a great influence on the results obtained. A uniform product that is exhibited in volume before the auction buyers regularly during its season, sooner or later will be sought after by them as a regular source of supply. Intermittent shipments can not be expected to bring the most satisfactory returns. A constant supply will draw more buyers, thereby increasing the opportunities for sale and widening the distribution, and in time should result in higher prices than if the supply is small and irregular.

A car containing several commodities or a large number of brands, marks, grades, or sizes, necessitating the separation of the shipment into more than the usual 15 or 20 lines, is expensive and cumbersome to handle, requires considerable space for display, and takes additional time to sell. Consequently such shipments are not solicited by the auction companies, and they usually sell at some disadvantage.

DIFFICULTIES OF TURNING NEW COMMODITIES TO AUCTION

There are lines of fruits and vegetables that are not now being offered for sale at auction. Only a small fraction of the total shipments of vegetables is sold by this method, although most vegetables have been auctioned at times in a more or less limited way.

One reason why more commodities are not sold at auction in volume is the present method of financing crop production. Dealers frequently assist in financing the growers by advances of cash or suplies. In consideration of this financial assistance the grower agrees to deliver all or a stated part of his crop to be marketed by the dealer, and shipments are consigned to him. The dealer who secures a part or all of his revenue from commissions or profits on the sale of these consignments is not inclined to turn them over to the auction for sale, since this would reduce his income. The auction companies as a rule do not solicit this business, as they do not wish to antagonize that element of the trade. In some instances, however, auction companies themselves have made advances to growers or shippers to assist in financing shipments intended for auction.

On the other hand, many growers prefer f. o. b. selling and are unwilling to ship on a commission basis. They consider that they have speculated on the crop sufficiently up to the time it is harvested and packed, without continuing the speculation throughout the marketing process. They prefer to sell f. o. b. shipping point and let the buyer take the chances of profit or loss on the market.

Vegetables and some fruits are commonly sold in the large wholesale markets between hours of midnight and 7 a. m. The buyers of these commodities, except in New York City, are not accustomed to assemble at any one time during this period. Consequently in order to turn these lines to auction the habits of the trade would have to be overcome, and it is a difficult matter to effect a change in the schedule of method pursued.

Terminal facilities in the larger markets at the present time are inadequate, except during the winter and spring months, for the handling of a larger volume at auction. Until steps are taken to enlarge such facilities, both for receiving shipments and for making deliveries after sale, the selling of vegetables as well as additional fruits in volume presents marked difficulties.

Lack of organization among the growers and shippers of a commodity makes it more difficult to turn that line to the auction. The producers of vegetables have not been so thoroughly organized as the fruit growers, which may account in a measure for the difference in quantity of fruits and vegetables offered on the auction. This lack of organization, the establishment of an f. o. b. market, and the strong competition among the growers and shippers have all

helped to develop a situation which makes it difficult for many producing sections to grade and pack any commodity uniformly and to ship a steady supply in the necessary volume required of a successful auction commodity.

SOURCES OF SUPPLY

The growth of the fruit and produce auctions during recent years may be attributed largely to the patronage of large cooperative and private marketing exchanges. An auction company that handles the accounts of one or more of these organizations usually is assured the steady and adequate supply necessary to attract the buying trade and to permit the successful continuation of business for reasonable charges.

In general there are five classes of agencies operating through the auctions. These are named below in order of the volume of business furnished, as determined for the United States as a whole and not for any one market:

(1) The larger marketing organizations which maintain salaried city representatives. Such organizations supply approximately 62 per cent of the tonnage sold at auction.

(2) Shippers who provide tonnage to the auctions through auction receivers or city dealers, who represent them for a fixed fee or an agreed commission. They supply approximately 20 per cent of the tonnage.

(3) Car-lot wholesalers or commission merchants, supplying approximately 9 per cent of the tonnage.

(4) Individual shippers, shipping organizations, and associations that, in a few instances, make consignments direct to the auction company. They supply approximately 8 per cent of the tonnage.

(5) Brokers, who supply approximately 1 per cent of the tonnage.

About four-fifths of the supplies sold at auction are handled locally through the salaried city representatives and the auction receivers. The former represents only the organization with which he is connected. It may be one of the large cooperative exchanges, a private sales agency, or a large shipping organization. The auction receiver may represent individual growers, small local cooperative exchanges, cooperative sales agencies, private or noncooperative sales agencies, country dealers, etc.

Auction companies generally do not receive direct the shipments which are to be sold, this duty falling either to the personal representative of the seller or to the middlemen mentioned. These agencies are usually designated by the general term "auction receivers" or sometimes in midwestern markets as "auction contributors."

It is the business of the receiver to handle the car upon arrival, to inspect the commodity for quality or grade and condition, to file any claims arising against the carrier for loss or damage in transit, and to prevent unnecessary delays in handling. He furnishes the auction company with a manifest which shows the number of the packages of each size and grade. The receiver arranges for the time of sale and represents the seller at the auction. He frequently informs the auctioneer as to the general quality of the various lots and is expected to protect his principal by seeing that all bids are recog-

nized before the sale is completed, or if the bids are below the prevailing market prices, to exercise his privilege of withdrawing all or part of the car from the sale.

To render the best service, a receiver must be in close touch with market conditions, including current prices and the volume and character of receipts, both his own and those of his competitors. He should be present at the display of samples to furnish prospective buyers with information regarding the lots he expects to sell. An opportunity is presented here for an active salesmanship, as a receiver who is well established and in whom the buyers have confidence may assist materially in attracting attention to the particular lines in which he is interested.

HOW THE GOODS ARE HANDLED AND SOLD

TERMINAL AND WAREHOUSE FACILITIES

Cars arriving for sale are unloaded either by the auction company or by the railroad company. Warehouse space is usually provided by

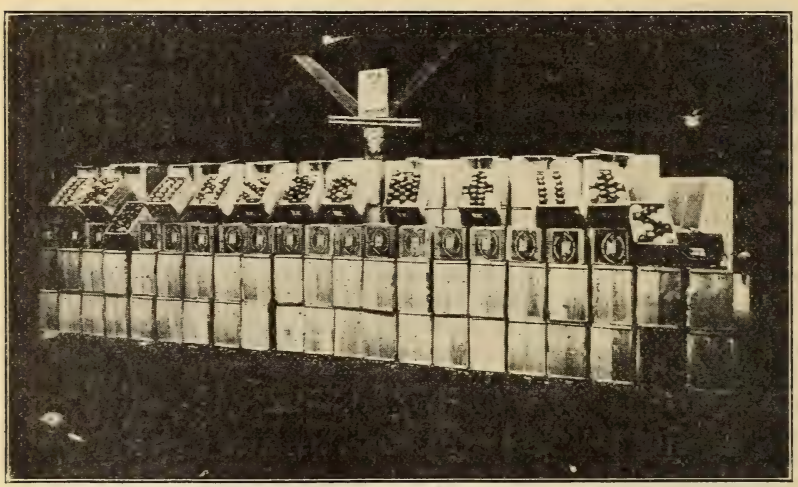

FIG. 5.—A car of boxed apples lined and stacked in the warehouse. Samples of each line are on display for the inspection of the auction buyers

the auction companies where shipments may be unloaded and held until sold. This space is usually rented by them from the carriers at the freight terminals in locations convenient for the buyers, thus saving unnecessary handling. Ordinarily part or all of the warehouse is heated during the winter months. The capacity of the storage space controlled by the various auction companies varies from a few cars up to 300 or more.

At times when supplies have been extremely heavy and the warehouse facilities have been insufficient to accommodate all the offerings, cars have been opened in the railroad yards for inspection by the prospective buyers without unloading and without displaying samples elsewhere. A stated time is allowed for examination of the various car lots offered, after which the cars are auctioned either in the yard or in the salesroom after the buyers return. This method of

display has been followed widely with shipments of juice grapes and watermelons and is said to have met with success.

DISPLAY OF SAMPLES

To display the goods and facilitate the sale the products are separated into lines, each line consisting of all packages of the same brand, grade, and size from a single car. Samples are then selected at random by representatives of the auction company and opened for the inspection of buyers. Typical displays are shown in figures 5 and 6. If the fruit is wrapped, the wraps are removed from a number of specimens to show the grade and condition. Usually in lines of 50 packages or less only 1 package is opened, but in larger lines 2 or more are displayed. In lines of 500 to 1,000 packages as many as 15 may be opened.

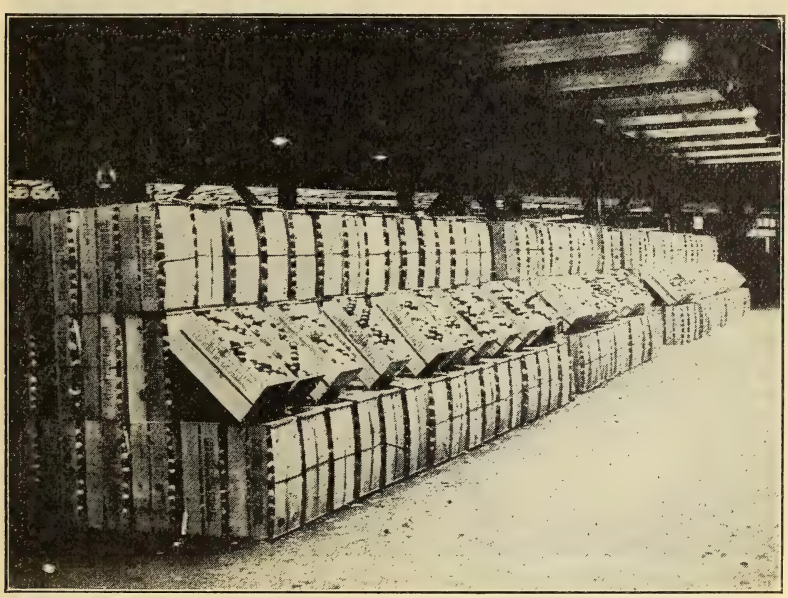

FIG. 6.—Several cars of oranges lined, stacked, and displayed in the auction warehouse

These samples are known to the trade as "parts of marks." Most auction companies state specifically in their terms of sale that the sale is not being made by sample but that the package displayed is for the inspection of the buyer in forming his opinion as to the value of the product. It is usually understood in display rooms that prospective buyers may be granted the privilege of opening other packages to determine whether the sample fairly represents the lot, provided such packages are placed in their original condition after examination. In some cities it is found necessary to sell lines by samples without giving the buyer the privilege of further inspection. Foreign lemons are sold strictly by sample, as are foreign grapes, which are displayed upon lifts or tables before the buyers. As soon as the sale begins the samples or "parts of marks" are nailed up and sold with the line, except where samples are not displayed

with the line but are hauled to a display room elsewhere. (See fig. 7.) In such cases they are sold separately, and usually at a discount of approximately 10 per cent below the selling price of the remainder of the lot.

The selection of samples is supposed to be and usually is carried on with strict impartiality. But in spite of the fact that most auction companies do not countenance the practice, instances have been noted frequently where auction receivers removed decayed or otherwise defective fruit and substituted sound specimens. This practice, known as "dressing the samples," led to the establishment of a rule in selling foreign lemons in New York City that a representative of the New York Fruit Exchange should select the samples displayed for the inspection of buyers. A fee is charged by the exchange for

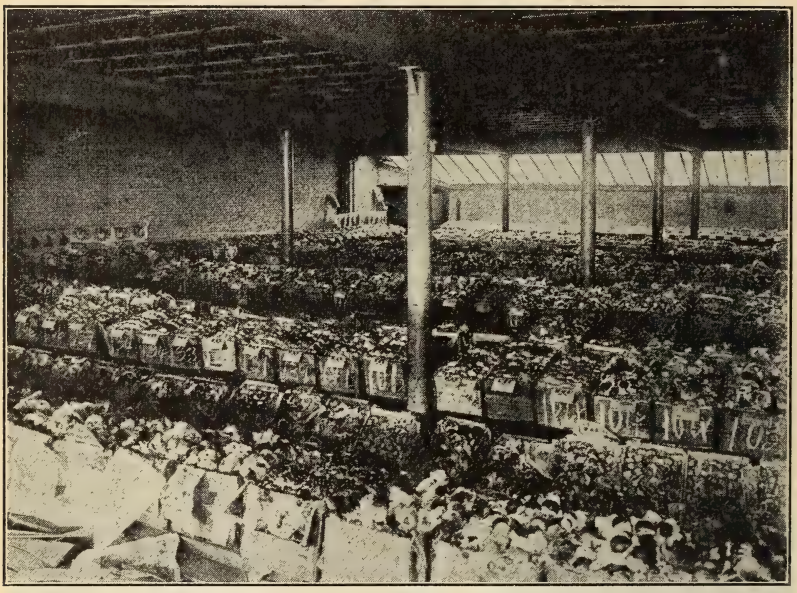

FIG. 7.—Auction sample display room. These samples are shown separately from the lines from which they were taken. The line numbers written on the ends of the packages correspond to the numbers of the lines in the catalogue

the service. It is maintained by receivers who do not dress the samples that the practice is well known to the buyers and that they usually discount to a degree the lines offered by receivers who do it habitually. It is probably true, however, that where the samples are displayed with the lines the buyers are seldom deceived by a dressed sample, since they have the privilege of examining other packages of their own selection.

SALESROOMS

Most of the auction salesrooms are on the upper floors of the freight terminals or docks which are used for warehousing and displaying the products. The buyers occupy seats equipped with wide arm rests for writing, which are usually arranged in rising tiers as in a theater, to afford the auctioneer and the buyers an unob-

structed view. Some of the salesrooms in the Middle West are equipped with school desks and do not have the rising tiers of seats. A typical salesroom is shown in Figure 8.

The auctioneer and his clerical assistants occupy the platform, and as a rule there is a place for the auction receiver. Frequently desks are provided near the platform for representatives of the trade publications. In most auction rooms telephone booths are provided to enable the buyers to keep conveniently in touch with their offices.

THE AUCTIONEER

The post of auctioneer is one of great responsibility and demands the services of a man of strong personality, who is experienced in the produce business and well acquainted with the individual members of the trade. Opinions have varied somewhat as to whether it

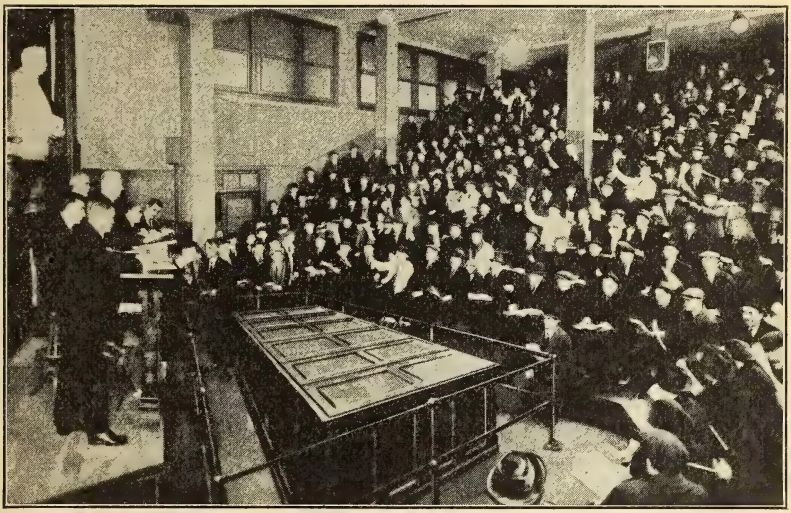

FIG. 8.—A typical produce auction salesroom

is necessary for the auctioneer to have a knowledge of the quality and condition of the products offered for sale. Some maintain that his duty is fully performed when he secures the highest bid from those in attendance. Others contend that, if an auctioneer knows the character of the commodities and their approximate market value, together with the particular requirements of the individual buyers, he is in a position to stimulate bidding in a manner not possible to one not so informed. The general opinion of the trade at present seems to support the latter point of view. It is important that the auctioneer understand local conditions, including methods and practices of the various buyers and the sizes and grades on which they customarily bid, so that he may detect any combination among them that may have in view restriction of the bidding.

An auctioneer usually operates under a State or municipal license, the cost of which is borne by the company employing him. He customarily has certain definite duties to perform outside of his

selling activities. A number of auctioneers are members of the auction companies; in some instances they are part owners.

CLERKS

The auctioneer is accompanied by two or more clerks throughout the sale and all transactions are recorded as rapidly as made. As soon as a sales sheet is filled it is dispatched promptly to the office, where it is checked immediately and sent to the delivery clerk. Purchases usually are billed to the buyers the same day and always within 48 hours after the sale.

THE BUYERS

Fruit and produce auction sales are open to the public and any buyer may bid who has complied with the requirements of the auction company or is ready to meet the conditions under which the sale is conducted. The classes of buyers who frequent auction sales are enumerated below, but each market and each company presents individual characteristics as to proportionate amounts of business transacted with each class. The following figures furnished by a prominent New York auction company represents a close estimate of the volume of business done by the auctions with the various elements of the trade in that city: Jobbers, 50 per cent; buying brokers, 20 per cent; peddlers and pushcart men, 15 per cent; chain stores, 10 per cent; and fancy fruiterers, 5 per cent.

Wholesale grocers do practically no buying of fruits and vegetables at auction in New York. Hotels and restaurants and retail grocers generally use the buying broker.

The percentages given are not the same with all commodities. For example, the peddler class in New York City takes about 20 per cent of the California deciduous fruit and the fancy-fruit stores handle about 20 per cent of the lemons. Prior to the establishment of the present quarantine against grapes from Spain, the fancy-fruit stores also took about 20 per cent of the Almeria grapes sold at auction there.

A western company furnished the following figures covering its sales in a recent year: Jobbers and commission men, 78 per cent; peddlers, 14 per cent; and motor-truck operators, 8 per cent.

Numerically, the peddlers constitute by far the largest class, but according to these figures the largest purchasers are the jobbers. Peddlers who handle only a small volume of goods frequently combine to buy at auction. By pooling their requirements they are enabled to purchase in quantities equal to one or more auction units. One of their number, known as the boss peddler, usually does the buying and the goods are split up later among the group, which generally concedes the so-called boss peddler a profit on the transactions.

Since practically all classes of the wholesale buying trade are represented at the auction, a buyer can be found at some price for each line offered, regardless of its quality or condition, provided the goods have some merchantable value. Since the commodities are sorted into "lines," the buyer at auction can buy the variety, grade, and size that he wishes, and is not compelled to purchase something he does not need in order to secure something he wants.

A factor of increasing importance in connection with the distribution of fruits and produce sold at auction is the motor-truck line operator who establishes regular routes in and around the large cities, supplying the needs of regular customers in the small retail trade. Some of these truck lines have extended their operations from 30 to 50 miles outside the markets. In Chicago eight motor-truck line operators purchased nearly 8 per cent of the two and three-quarter millions of packages sold by one auction company during a recent year.

SALES CATALOGUES

Catalogues are furnished by the auction companies describing each line, giving the name of the seller, the grower's name or brand, the grade and sizes, and other information, such as the time of sale, the location of the display, and the name of the auctioneer. These catalogues are used by the buyers in inspecting the samples and by the auctioneer as a program for the sale. A sales catalogue is shown in Figure 9.

18

LINES	MARKS	DESCRIPTION
	F C E 2179	JOHN DOE CITRUS COMPANY
	A Brand	F. G. E. CAR 31199
		VIA PENN. R. R.
		FLORIDA ORANGES
574	150-3 176-22	24 BOXES
575	200	12
576	216	28
577	250-15 288-1 324-1	16
578	Parts of marks opened	4
579	B Brand 150-1 176-10	10
580	200	12
581	216	21
582	250	19
583	288-3 324-5	7
384	Parts of marks opened	5
	A Brand	SATSUMAS
	76-1 106-2 120-6 144-5 168-7 196-2	
585	216-1	23 HALF BOXES
586	Parts of marks opened	1

FIG. 9.—Page from a sales catalogue used during an auction sale

LOTS	MARKS	DESCRIPTION		
	John Doe Citrus Company	**FGE 27121** CONSIGNMENT NO. 2959		
502	A Brand	29 Bxs.	Grapefruit	3 25
A	Bright 46	1		2 80
	36	37		3 65
503	54	1	brkn	2 00
A				
504	64	12		4 05
505	70	2		4 15
A		1	brkn	2 00
506	Golden 3-36 5-46	8		3 00
507	54	59		3 25
A		1	brkn	2 00
508	4-64 2-70 4-80	10		3 85
509	Russet 36	3		2 80
510	46	19		2 80
511	54	55		3 10
A		2	brkn	2 00
512	64	26		3 35
A		1	brkn	2 00
513	70	41		3 50
514	80	5		3 50
515	Plain 46	5		2 80
A		1	Inspection	2 00
516	54	16		2 95
A		1	Inspection	2 00
517	4-64 11-70	15		2 95
A		1	Inspection	2 00
518	4-80 4-96	8		2 80

FIG. 10.—Page from a price-realized catalogue showing prices obtained at the sale

PRICE-REALIZED CATALOGUES

Price-realized catalogues are issued by most companies to auction receivers after the sale in sufficient quantity to enable them to supply one to each shipper. These catalogues contain a record of the prices at which each line was sold and the prices paid for samples and broken packages. Some companies issue price-realized catalogues for only a portion of the goods sold, and these are issued only when requested by the receiver. A typical price-realized catalogue is shown in Figure 10.

ADVERTISEMENT OF SALE

Sales are advertised in such manner as local conditions seem to require. The trade publications, newspapers, and printed bulletins published by the auction companies are the usual means employed to inform the trade of the supplies to be sold. Some auction companies issue no announcement in advance of the sales, and the buyers do not know what is being offered until they arrive at the display room.

THE SALE

All auction sales are open to the public. In starting the sale, the auctioneer announces the line or lines offered and calls for bids. He generally accepts 5-cent increases. In New York City in order to expedite business usually no bid smaller than 12½ cents is recognized in selling citrus fruits, but 5-cent bids are taken on deciduous fruits. In some instances the increases may be reduced to 2½ cents, as in the sales by telegraph conducted by the f. o. b. auctions. In some auctions it is customary for the auctioneer to call for bids at a price somewhat above the prevailing market, to work down until he gets an offer, and then to accept competing bids in the usual manner.

Occasionally the sale of a car or a line is influenced more or less by "puffers." A puffer is a person who, without having any intention to purchase, is employed by the seller at an auction to raise the price by fictitious bids, thereby increasing competition among the bidders while he himself is secured from risk by a secret agreement with the seller that he shall not be bound by his bids. These fictitious bidders are also known as "by-bidders" or "cappers." At times receivers bid on their own cars in order to run up the price of the commodity, although not all auction companies will countenance this practice. If by-bidding is discovered, most auctioneers will resell the goods at once, but the receiver retains the privilege of "pulling" or withdrawing from sale any line or car of his offerings which in his judgment is likely to be sacrificed at the sale. Where the owner of the goods or his representative announces before the sale that no bid less than a designated amount will be received, the auctioneer may reject any bid that is less than that amount.

The auctions exercise a considerable influence as an indicator of market values. The auction prices are made public immediately after the sale by the trade publications, by newspapers, and by the

price-realized catalogues, and are used to a large extent as the basis for market reports issued by governmental and private agencies. Prices realized by the auction sales on well-established auction commodities are reflected directly in the street sales. Consequently it is advantageous to the seller to offer high-class products of desirable varieties and brands rather than to permit the auction prices to be established at a low figure because of the sale of fruit and produce of low grade and poor condition.

In principle, auction sales are such that when the sale is once made it is binding on both the buyer and seller and the returns are bona fide, giving a staple basis for distribution and reducing the likelihood of dissatisfaction based on misunderstanding or sharp practice. Rebates, secret agreements, private adjustments, and manipulation of accounts are reduced to a minimum by the publicity attending all auction sales. The jobber who buys at auction can not increase his margin of profit unduly without the knowledge of his clientele, and as a result these jobbers have a tendency to work on a narrower margin.

Buyers are not so interested in whether the price they pay is high or low as they are in knowing that they are buying on a plane of equality with all other buyers. If the open auction—f. o. b. or delivered—is honestly and fairly conducted in all respects, the buyer may have the assurance that he is not at a disadvantage in competing with others and that the price he pays is governed by supply and demand and not by some artificial influence; provided, of course, the supply and demand are sufficiently concentrated. The whole principle of auction selling is predicated upon the necessity for having concentrated in one place a proportion of the supplies of any particular commodity sufficient to attract a large body of the buying trade which handles that commodity.

In those markets where more than one auction company exists, the usual custom is to follow an agreed rotation or schedule in the conduct of their sales. The companies as a rule do not hold their sales simultaneously but follow each other in a rotating sequence, often using the same auction rooms, in order that no company may hold the most advantageous position in the sequence more frequently than its competitors, and that the buying trade may have the opportunity of attending all sales. For the purpose of allowing all receivers to compete on a plane of equality, each auction company further establishes an agreed rotation among its receivers, which changes their position in the sale from day to day. Instances have been reported, however, where influential receivers have forced the auction companies to sell their offerings each day at an hour which the receivers believe to be the most favorable for them.

In certain of the larger markets, keen competition between the auction companies and the large volume of auction offerings have caused some companies to depart from these definite schedules and to hold sales simultaneously with their competitors, in which shipments of the same commodities are offered. Manifestly this prevents to a greater or lesser degree the convening of the demand in one place at one time, even though some dealers maintain two or more auction buyers to enable them to be represented at each sale.

UNITS OF SALE

To expedite the business, as well as to make it an object to buy in quantities, all auction companies require purchasers to take a certain minimum number of packages, the number varying in the different cities. In Boston, for example, by agreement with the trade one auction company has fixed the unit of sale for citrus fruits at 40 packages. For boxed apples the amount is 40 boxes, but if the line is less than 100 packages the buyer must take the whole lot. Twenty packages is the usual unit, though in some markets it is as low as 10.

The receiver may exercise the right of "no privilege." This phrase is used by the auctioneer when announcing from the stand that the quantity offered by the receiver will be limited to one auction unit. The buyer understands that he will not have the usual privilege of

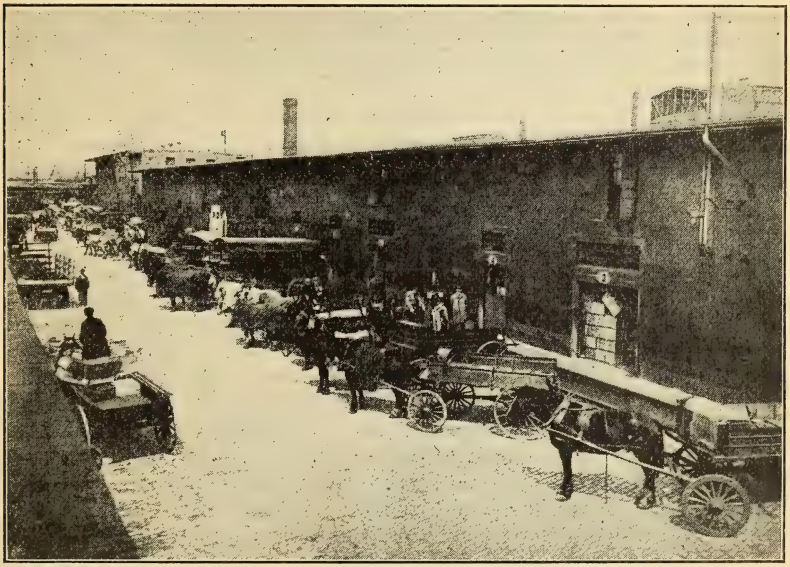

FIG. 11.—A railroad terminal used for auction purposes. Fruit may be seen stacked on the warehouse floor. The salesroom is in the two-story portion at the farther end. The teams and trucks are waiting for the deliveries

taking as many units as he desires at the price finally determined for the line. This right is often exercised by the receiver when the market on that commodity is unsettled and the bidding is lower than he believes it should be.

DELIVERY

Goods are ready for delivery very soon after the sale has been made (fig. 11). The buyer may take delivery of the goods with his own trucks, or may make arrangement with the auction company to have his purchases delivered. In some cities collections are made for the truckmen, the auction company billing the cartage to the buyers. The piers and warehouses in which the goods are stacked frequently become severely congested shortly after the sale starts, because of the large number of trucks and drays brought in for supplies.

The buyer, as soon as the goods have been "knocked down" or sold to him, may issue instructions to the auction company to deliver certain portions of the lot to persons other than himself. The written order giving such directions is commonly known as a division slip (fig. 12). Division slips are used by buying brokers to advise the auction company that the goods bought are to be charged to the principal rather than the agent.

BROKEN PACKAGES

When cars are unloaded frequently a few packages are found which have been broken in transit. These are repaired and repacked either by the carrier or by the auction company. Those which can be restored to their original condition are stacked and sold with the line and the remainder are sold at auction to the trade as broken packages or turned over to the railroad company for disposition. The prices at which the broken packages and the corresponding line are sold are recorded, and on this record is based whatever claim the shipper may make against the carrier for loss on broken packages.

Broken packages are known in some markets as ullages or as A-lines. This latter term is commonly employed to indicate not only broken packages, but samples, parts of marks, and containers found to be wrongly marked or in some way different from the remainder of the line.

SPLIT SALE

When sales of a commodity in a given market are divided between the auction and private sales or between two or three auction companies selling at the same time and in competition, the prime purpose of the auction—the bringing of the forces of supply and demand to a sharp focus—is defeated to a greater or lesser degree.

"Split sales"—that is, the use of both the auction and private sale by an individual or organization in selling a commodity in a given market—tend to complicate the distribution of that commodity somewhat and often cause the returns to be less satisfactory than if the sales were all made either by one method or the other. Split sales cause the product of the same marketing organization to enter into competition with itself, and permit the buying trade which relies on that particular brand to fill its needs more or less completely at private sale before the auction opens, or vice versa. They cause the demand to be divided between the auction room and the street, thereby separating instead of convening the buyers. It is evident that the most satisfactory results can not be achieved by the auction when a large number of dealers are devoting their utmost efforts to sell at private sale as large blocks as possible of the best brands to their most discriminating trade and offering only a residual portion of the commodity on the auction. The converse, of course, is likewise true.

Manifestly the situation is different when practically the whole of a given line of produce, uniformly graded and packed in standardized containers, is offered exclusively at auction. As a matter of sales policy some of the largest distributors of citrus fruits dispose of their entire offerings in the various markets either by auction or by private sale, but do not divide their sales between the two methods.

50 M-10-'21

New York May 11, 1925

JOHN DOE AUCTION COMPANY

The following lots were bought under instructions from and are to be charged

to Smith Produce Company
Pittsburgh, Pa.

Ex. S. S. Columbia

Route by Pennsylvania R.R.

LINE NO.	PACKAGES	PRICE
17	40	4.10
45	40	3.95

Broker John Doe

FIG. 12.—Facsimile of a division slip used by auction companies

AUCTION SALES OF BANANAS

Bananas have been sold at auction to a greater or lesser extent for years in New York City and Baltimore. Since 1914 the largest importer of bananas has used the auction method in Baltimore for selling fruit intended for local consumption. In 1917 this same importer adopted the auction method exclusively for New York City distribution, and extended this policy to the Philadelphia market in 1918. These three cities in 1923 showed gross sales of bananas at auction amounting to $11,146,792, which is 56 per cent of the declared value of the total banana imports of the United States for that year.

At the ports of New York, Philadelphia, and Baltimore, all bananas going into local consumption are sold at auction at the time the cargo is unloaded. This fruit is unloaded on the dock side of the banana ship into wagons or trucks, each load consisting of bunches of approximately the same size and quality. Fifty to 125 bunches of bananas constitute a load, according to the variety and size of the fruit. The banana buyers inspect the fruit as it is being transferred from the hold of the vessel into the trucks. Each truck load is auctioned separately as soon as the truck is filled, and is delivered immediately in compliance with instructions issued by the successful bidder. Bananas destined for inland points are loaded into refrigerator cars on the pier or on lighters or floats which are borne alongside the vessel.

Auction sales of bananas have altered to some extent the distribution of the fruit in these seaboard markets. At private sale the number of buyers in any market consisted of not more than 5 or 10 large operators who sold to the small jobbers. The auctions opened the sales to all buyers who can handle truck-load or wagon-load quantities, so that the total number of buyers has increased to about 125 in Philadelphia, to more than 400 in New York City, and to approximately 150 in Baltimore.

Banana sales at auction for local consumption in these three ports of entry, as shown in Table 3, grew in value steadily from 1913 to 1920, and since then have been fairly uniform.

TABLE 3.—*Value of bananas sold at auction in New York, Philadelphia, and Baltimore from 1913 to 1923, inclusive*

1913	$2,898,104	1919	$10,910,866
1914	3,093,623	1920	11,768,371
1915	3,355,797	1921	11,748,875
1916	3,653,399	1922	11,067,490
1917	4,282,958	1923	11,146,792
1918	7,538,693		

In 1923 these sales were distributed as follows:

Market	Cars of 400 bunches	Value
New York	12,734	$7,569,853
Philadelphia	4,524	2,410,960
Baltimore	2,921	1,165,979
Total	20,179	11,146,792

AUCTION CHARGES[4]

The commissions charged by the delivered auction companies vary from 1½ to 7 per cent, depending upon local conditions and the extent and character of the services rendered. The usual charges range from 1½ per cent to 2½ per cent. The highest commissions are charged in western markets on products which are seldom handled or which are difficult to handle. Most of the commodities auctioned in the western markets are sold for a commission of from 2 to 3 per cent.

Receivers or shippers who make only occasional use of the auction or who handle only a small volume of fruit or produce, often are subject to additional charges, such as terminal or dock charges, handling expenses, and catalogue charges, which may increase the total cost of selling to 3 to 5 per cent of the gross sales. It is customary, however, particularly in the seaboard markets, for the auction companies to absorb these expenses in dealing with large receivers who use the auctions continually in volume.

Several companies have a fixed terminal charge, which is established to cover the expense of unloading cars, stacking, lining and displaying packages, and delivery to the buyers' trucks. The amount of this charge is paid by the buyer, in addition to the price at which the goods are sold. This terminal charge ranges from 1 to 5 cents per package. Some companies have succeeded in having certain portions of this work done by the railroad companies, in which case the cost is probably included in the tariff and goes back to the shipper instead of being involved in the operating expense of the auction company, or paid by the buyer as a terminal charge.

The auction receiver generally charges the shipper a commission ranging from 1 to 7 per cent of the gross sales. The usual charge is 5 per cent, out of which are paid the charges to the auction company, amounting usually to from 1½ to 2½ per cent. Some auction receivers make a fixed charge of $10 to $25 per car. Certain large shipping organizations which are heavy contributors to the auctions handle their business through their own salaried employees, thus securing individual representation and frequently at a substantial reduction from the usual receivers' charges.

Some auction companies make a stated charge for cataloguing their offerings, ranging usually from $1.50 to $3 a car. Others absorb this expense in their commission. A few companies make a practice of billing a catalogue charge against all receivers except those who steadily furnish a large volume of business to the auction. As a rule the auction companies make a charge for recataloguing a car that has been withdrawn from a previous sale.

In some cases large and influential receivers or shippers have been able to secure from the auction companies a somewhat better rate than others are given. These preferential rates consist of reductions in commissions, reduction or elimination of cataloguing or terminal charges, etc. Apparently these rebates are often made by private arrangement and do not follow any definite schedule. A flat rate would appear to be more satisfactory from the standpoint of the small buyer or seller, although there may be some justification for

[4] For charges made by f. o. b. auctions, see p. 28.

charging a variable rate, graduated in accordance with the volume and character of the business, provided such rate is open to all who meet the required conditions.

SETTLEMENTS

Large auction companies usually allow purchasers of domestic products a credit term of 10 to 15 days. This term is sometimes extended to 30 days on foreign products. In many cases the buyers carry deposit accounts with the auction companies in order to establish a credit, the companies paying interest on these deposits. Buyers who have not arranged for credit with the auction companies are required to pay cash before delivery. Some companies transact all their business on a cash basis. Almost all auction companies guarantee the solvency of their buyers and settle with the receivers within 24 or 48 hours after the sale, so that any losses from bad accounts are borne by the company. In order to make prompt settlement with their receivers while extending credit to their buyers it is often necessary for the auction companies to borrow relatively large sums from the banks, especially during active seasons, when receipts are heavy.

There is little inducement for a buyer to spend a long time in the auction salesroom awaiting an opportunity to bid on a small line of goods in which he is interested, provided he can fill his needs promptly and conveniently at private sale or can employ the services of an agent to represent him at the auction. Many retailers and jobbers who buy in lots too small to justify their attendance at the sale secure their supplies through buying brokers, who usually make a charge of about 5 cents per package for their services. Those who purchase through such agents usually arrange a credit with the auction company against which the purchases of the broker are charged. If the broker arranges the credit with the auction company, he usually makes an additional charge of 5 cents per package. In the large markets there are a few brokers who buy for principals whose business is uniformly large, for commissions ranging from 1 to 3 cents per package.

ADJUSTMENTS

So far as the auction company is concerned, the price at which the line is sold by the auctioneer generally is final. After the sale is completed, should there be any cause for an adjustment by reason of condition of the product, or such mistakes as billing the wrong grades or sizes, or for any reason previously unknown to either buyer or seller that would work a material injustice, the buyer must deal directly with the receiver or his agent and not with the auction company. Mistakes in delivery, cataloguing, etc., which are directly traceable to the auction company are adjusted by them, however, and the adjusted price is the one shown on the price-realized catalogue. Since the buyer may examine not only the opened samples but other packages before the sale, there seldom is need for adjustments.

F. O. B. TELEGRAPHIC AUCTIONS

In 1923 two new companies were organized which have as their purpose the auctioning of car lots of fruits and vegetables by tele-

graph while the cars are still at the loading stations, in transit, or in storage. One of these companies maintains headquarters in Pittsburgh with salesrooms in Chicago, Detroit, Cleveland, Boston, New York, Philadelphia, Omaha, and St. Louis, and also has its leased wire extending to Los Angeles. During the season of heavy shipments of the commodities it handles, it also connects with a number of important producing sections including Orlando, Fla., El Centro and Fresno, Calif., and Yakima and Wenatchee, Wash. The other company has its main office in Chicago with branches and salesrooms in Pittsburgh, Philadelphia, New York, Boston, and Detroit, and connects with some of the important shipping points in season.

The first of these companies began operating in June, 1923, with sales conducted in Pittsburgh only. In October the sales were extended to include several of the principal markets in the Eastern and Central Western States, with the salesrooms connected by a leased telegraph wire. In October the second company began operations, employing much the same principles as the basis for the conduct of its business. These two companies, one operating for about 2½ months and the other operating for approximately 7 months had sold up to January 1, 1924, an aggregate of about 8,835 cars of fruits and produce, valued at more than six million dollars.

The activities of these so-called f. o. b. auctions have been more or less seasonal in their character. Their operations have been expanded during the grape and cantaloupe seasons and contracted during the remainder of the year. In fact, both companies have at times temporarily discontinued business in slack seasons.

METHODS OF SALE

Each car offered for sale in these f. o. b. auctions is inspected at the point of origin or in storage by Government inspector, or in some instances, by other inspectors who are not Federal or State employees. The Government inspector issues a certificate to the applicant for inspection showing the quality or grade and condition of the lot, which is acceptable to all United States courts as prima facie evidence of the truth of the statements therein contained. The contents of this certificate are transmitted to the auction company along with the car number, date of shipment, origin of shipment, routing and manifest, or in case of stock in storage, sufficient data to identify the lot. The auction company upon receipt of this information immediately lists a complete description of the car in its catalogue at each of the salesrooms, the car appearing under the same lot number in each market.

The trade in the territory adjacent to each market in which salesrooms are located is notified of the date and hour of each sale and is supplied more or less regularly with catalogues. In some cases the authorized agents or representatives of out-of-town buyers attend the sales and bid on the offerings in which they are interested, in competition with the local trade. The information obtained in the catalogue enables the buyer to determine the relative value of the various cars offered, and furnishes a basis for judgment in buying.

Each car lot listed in the catalogue is offered at open auction simultaneously in all the salesrooms, and bidding is carried on over the leased telegraph wire. Bids are accepted in increases as small

as 2½ cents. Each bid is placed on the wire as it is made and is announced simultaneously by the operators in all of the salesrooms, together with the name of the city in which the bid was made. The chief auctioneer is stationed in the main salesroom at the headquarters of the company, and the lot is "knocked down" by him after the bidding has ceased. The cars at times are sold as rapidly as one a minute.

The successful bidder issues billing or diversion instructions to the auction company. He may re-offer the car at a subsequent sale in the hope of making a profit or finding a market, and frequently upon arrival cars which have been purchased through the wire auctions are put into local distribution through the delivered auctions.

COMMODITIES SOLD

A wide range of commodities have been sold on the f. o. b. auctions, though grapes and cantaloupes make up the bulk of the volume. The list includes a number of vegetables which are seldom or never seen on the delivered auctions, and such commodities make up a rather substantial percentage of the whole. The following products were sold by the f. o. b. auctions during 1923:

Apples.	Celery.	Onions.	Radishes.
Apricots.	Chicory.	Oranges.	Rhubarb.
Beets.	Eggplant.	Parsley.	Spinach.
Cabbage.	Grapefruit.	Pears.	Tangerines.
Cantaloupes.	Grapes.	Plums.	Tomatoes.
Carrots.	Lemons.	Potatoes.	
Cauliflower.	Lettuce.	Peppers.	

CHARGES AND TERMS OF SALE

All sales are made for cash f. o. b. shipping point. The buyer assumes all transit risks and transportation charges and agrees that the Government inspection report shall be final and binding. The auction company, after deducting its commission and cataloguing charge, remits the net returns to the shipper within 24 to 48 hours after the sale, but frequently extends credit to the buyer, provided he can furnish a bond with surety approved by the company. All buyers, however, are expected to pay to the auction company at least 25 per cent of the gross value of the car at the time the sale is made. To those buyers who have established a credit with the auction company, sufficient time is granted for final payment to allow the cars to arrive at destination under the regular time schedule.

Charges made by the two f. o. b. auction companies differ. One receives from the seller the sum of 2½ per cent of the gross sale, with a minimum charge of $15 per car, plus a cataloguing charge of $2.50. The buyer pays a so-called wire charge of $10 per car. The competing company charges the seller 5 per cent of the gross sale, with a minimum charge of $30 per car, plus a cataloguing charge of $1.50. This company, in addition, assesses a service charge on the buyer in accordance with the following schedule:

	Cents per package
Cars containing 249 packages or less	5
Cars containing 250 to 499 packages	3
Cars containing 500 to 899 packages	2
Cars containing 900 packages or over	1
Cars of boxed apples	1½

If a car is withdrawn from a sale by the seller and is re-offered at a subsequent sale, the auction company makes an additional charge of $15 plus the cataloguing charge and commission when the car is relisted.

One of the f. o. b. auction companies has been active in promoting the development of soliciting organizations in producing sections for the purpose of supplying shipments for sale through the auction. For their service these organizations usually charge an additional 2½ per cent. The grower or shipper receives his returns through the soliciting organization.

The terms of sale of the two companies are similar in effect, except for the charges made. The following is a copy of the terms in force by one company:

All buyers, sellers, or authorized agents of buyers, sellers, or purchasers, do hereby agree that all sales and purchases shall be made under the conditions hereinafter set forth:

1. All offerings at the auction conducted by the ——— auction company will be inspected by the Government-State inspector at loading point or point satisfactory to the above company, and copy of such inspection report will be printed in the catalogue, which said report all buyers or their representatives agree shall be accepted as binding and final. Should any inspection other than Government inspection be used, same will be so published and will be acceptable to the above company, and both buyers and sellers agree to accept same as above specified.

2. All sales and purchases are made at the buyer's sole risk at point of origin of shipment as per inspection report of such inspector at such point.

3. All sales are for cash, payable at the time of sale unless otherwise agreed in writing by the ——— auction company.

4. Such buyers who desire credit shall furnish to the ——— auction company a bond, with surety to be approved by said company, the amount of credit to be fixed by the said ——— auction company.

5. The ——— auction company will receive as payment in full for their services as herein described the sum of 2½ per cent of the gross sales, with a minimum charge of $15 per car and a cataloguing charge of $2.50 per car.

6. The ——— auction company is hereby authorized to immediately pay, on behalf of any purchaser, to the owner of the merchandise so purchased, the full purchase price thereof less charges for their services as shown above, and the purchasers of said merchandise hereby agree to pay at once to the ——— auction company the full purchase price of all merchandise purchased, regardless of the condition of the goods so purchased, or the failure of the carrier to make delivery of the commodity so purchased.

7. The ——— auction company shall not be responsible for delays in transit or mistakes in manifest, car numbers, or any other matter whatsoever, but will assist in every way possible to bring about a satisfactory adjustment between buyer and seller.

8. The sellers or their representatives shall file diversion orders within 24 hours after sale, billing cars as instructed by the ——— auction company. Should the seller fail to furnish such diversion instructions within the time specified, the sellers shall be responsible to the ——— auction company for all claims arising out of the nondelivery, in accordance with the terms hereof.

9. All agents of buyers or sellers shall, before making such purchases or sales, furnish to the ——— auction company written authority signed by their principals, empowering them to make such sales or purchases.

10. Should cars not be direct shipments or be held at some point, such information will be listed in catalogue. Otherwise it is understood that cars listed are direct shipments en route at time of sale.

11. Correct routing and destination of all cars should be furnished at time cars are listed.

ADVANTAGES AND LIMITATIONS

Advocates of the f. o. b. auctions point to several advantages which they maintain may be expected to accompany this method of

buying and selling fruits and vegetables. These claims are enumerated below:

(1) The shipper is said to benefit in that he receives his returns within 24 or 48 hours after the car is billed or as soon as diversion to the buyer is confirmed. He may reduce materially the speculation which often accompanies the selling of a car of produce and can eliminate the expense of a private sales force in the terminal markets. Furthermore, f. o. b. auction sales put him into position to discontinue shipments as soon as prices drop to a point where profits are nonexistent, thus saving the expense of harvesting, grading, packing, and loading products which he knows in advance will sell at a loss. He does not have to wait until his car arrives in a terminal market to learn what it will sell for, and consequently the f. o. b. auctions tend to reduce shipments automatically and immediately in times of overstocked markets and low prices.

(2) It is asserted that since all buyers purchase on a plane of equality, irrespective of the volume of business done or the cities in which they are located, the best market for each car is found automatically and speedily. This permits the routing of the car direct to its ultimate destination. Because of the more prompt delivery, the risk of damage and deterioration in transit is reduced. Savings are accomplished by eliminating the time and expense involved in extra private telegrams, extra bookkeeping, multiple diversions, demurrage, extra icing, etc., that are caused by delays in finding a market for a given shipment.

(3) These auctions encourage the use of Government inspection at points of origin, and this inspection serves to bring about an improvement in the quality of the shipments. The shipper naturally endeavors to secure a Government certificate which shows his products to be well graded and in good condition. Waste is reduced thereby, since the grower or shipper is induced to refrain from harvesting and packing and paying freight charges on products of inferior quality which will not return a profit.

(4) The buyer is kept posted constantly on conditions in producing sections and in other competing markets, and this prompt information together with the Government inspection enables him to dispense with personal representatives in the shipping sections.

(5) It is contended that f. o. b. auction sales, assist in equalizing prices and distribution among all markets represented at the sale, in proportion to their capacity to absorb shipments.

It must be remembered in considering these claims that many of them are almost wholly dependent upon the auction handling a volume of each commodity offered sufficient to attract the trade, thus permitting the assembling of the supply and demand. The success or failure of this method of distribution no doubt will be determined largely by the ability of the f. o. b. auctions to attract a large number of buyers representing a large number of markets.

It is also essential that the auction win the confidence of the trade by avoiding all suspicion of unfairness in carrying on its business. The catalogues must show accurately for each car listed all the facts contained in the original Government inspection certificate, as this is the only evidence which the buyers have on which to determine the value of the car. Distortion of these facts, either inten-

tionally or otherwise, will cause the trade to lose confidence in this method of buying and selling.

"By-bidding" and fictitious sales should be eliminated by the auctions, wherever such practices can be detected. Reference to the catalogues reveals that in some instances the same car has been sold and resold at two, three, or even more successive sales, being listed at each sale for the account of the original shipper. In such cases it is popularly believed that when the wire bidding does not reach a figure at which the shipper is willing to sell, the car is bid in by the shipper or by the auction company acting as his representative, the car then being re-offered at subsequent sales in an effort to secure a better price.

The tremendous increase in production and consumption of fresh fruits and vegetables in recent years has created a demand for the development of every possible channel of distribution, and the f. o. b. auctions constitute a natural outgrowth of this demand. This method of selling is comparatively new, and under present practice is limited to sales in car lots. It remains to be seen whether it will safely pass through the period of experimentation and become permanently established as an influential factor in distribution.

ESSENTIAL POINTS OF AUCTION LAW[5]

AUCTION

An auction is a public sale of property to the highest bidder by one licensed and authorized for that purpose. The main purpose of auction sales is to obtain the best financial returns for the owner of the property sold; hence competition among a number of bidders is a necessary element.

AUCTIONEER

An auctioneer is one who sells goods at public auction for another on commission, or for a recompense; one who conducts a public sale or auction, although the goods sold are his own.

An auctioneer in making a sale of goods is, by virtue of his employment to make the sale, primarily the agent of the seller. When, however, the property is struck off the auctioneer is also made the agent of the purchaser to the extent of binding the parties by his memorandum of sale, by the act of the purchaser in giving him his bid and receiving from him without objection the announcement that the property is knocked down to him as purchaser, or by otherwise expressly or impliedly assenting thereto.

By virtue of his office, an auctioneer has no authority to sell property at private sale. It is his duty to sell at public sale, unless he is expressly or impliedly authorized to sell at private sale.

In the absence of facts showing a different intention of the seller, an auctioneer authorized to sell personal property has authority to receive and collect the purchase price.

PARTIES TO A SALE

In a sale by auction there are usually three parties—the owner of the property to be sold, the auctioneer, and the portion of the public

[5] 6 Corpus Juris, pp. 821–846.

who attend to bid. To complete an auction sale there must be a bidder, the property must be struck off or knocked down, and the person to whom it is struck off must complete his purchase by complying with the terms of the sale. In conducting the sale it is part of the auctioneer's duty to invite and excite the competition of bidding, and to dispose of the property to the highest bidder. Some measure of discretion is vested in him as to the precise methods to be pursued in attaining that object, but it should be made in accordance with the laws governing public sales. A sale by auction is not governed by the strict rules applicable to formal contracts made with deliberation after ample opportunity to investigate and inquire.

CONDITIONS OF SALE

The owner of property offered for sale at auction has the right to prescribe the manner, conditions, and terms of sale. But in the absence of conditions prescribed by the seller an auctioneer may use his discretion in prescribing such terms of sale as will exclude puffers and fraudulent bidders and secure the confidence of honest purchasers, and he may even postpone the sale.

PRINTED CONDITIONS

Printed conditions under which a sale proceeds are binding on both buyer and seller, and can not be varied, although they may be explained by verbal statements of the auctioneer made at the time of the sale.

NOTICE OF CONDITIONS

The conditions of a public sale, announced by the auctioneer at the time and place of the sale, are binding upon a purchaser, whether he knew them or not. So also, where it is the custom to post up the conditions in the auctioneer's room and the auctioneer announces that the conditions are as usual, a purchaser is bound by the conditions, whether he sees them or not.

BIDS AND BIDDERS

A bid is an offer by an intending purchaser to pay a designated price for property which is to be sold at auction. A bidder is one who makes an offer for property on sale at auction.

A bid may be made in words uttered aloud in the hearing of the bystanders or spoken privately to the auctioneer, or by writing in words or figures, or it may be made by a wink or nod, or in any mode by which the bidder signifies his willingness and intention to give a particular sum or price for the property offered for sale. In the absence of instructions or limitations to the contrary an auctioneer ordinarily should accept all bids. But he is not bound to accept all bids as a matter of course. He may refuse to accept bids from minors, from insolvents, or from persons irresponsible, either financially or mentally, from persons offering their bids in bad faith, or from a person making but a trifling advance in his bid over the bid last announced.

Where the owner of the property to be sold publicly announces that no bid less than a designated amount will be received, the auctioneer may reject a bid that falls below that amount.

RIGHT TO WITHDRAW PROPERTY OR BID

Until the hammer falls and the bid is accepted, the seller may withdraw his property from sale or the bidder may withdraw his bid, even though the conditions of sale provide that bids shall not be withdrawn.

SUMMARY

Twenty-four companies are now engaged in the business of selling fruits and produce at auction in the United States. These companies operate in 14 of the principal distributing centers, all but one of which are located in the northeastern section of the country.

Numerous changes have taken place in the auction business in recent years. Reorganizations, consolidations, and the establishment of new companies have occurred in several cities. Most of these changes have resulted from the demands of the trade for impartiality in the services rendered and the charges imposed, and from their desire to participate in the profits earned by the auctions. The tendency is toward greater uniformity in methods and practices.

Some auctions are controlled by members of the trade, others are independent of the trade. Irrespective of the type of organization, an auction must render impartial service in order to merit the confidence of its patrons. If it is honestly and equitably conducted the auction tends to assemble the supply and demand in the market.

Auctions in the receiving markets whose sales are made only after arrival of the goods are known as delivered auctions, in contrast to those selling by wire before arrival, known as f. o. b. auctions. The former, as a rule, sell in jobbing quantities, the latter in car lots.

The delivered auction occupies a position in the channels of distribution between the shippers and the retailers. On the one hand, its functions are identical with those of the car lot wholesaler or the commission merchant, while on the other it operates in much the same manner as the jobber and other less-than-car-lot wholesalers. It serves both groups.

A great variety of commodities are sold at auction, but the majority of the supplies consist of citrus and deciduous fruits. Vegetables constitute only a very small fraction of the auction sales.

Fruits and vegetables to sell successfully by this method should be uniformly graded and packed in standardized containers. They must be offered in volume sufficient to attract the trade and must appear regularly on the auction when in season. They may be of foreign or domestic origin.

Limited warehouse and terminal facilities, unfamiliarity with auction methods and practices, long-established prejudices and customs of buyers and sellers, lack of uniformity in grading and packing, and inadequate control of shipments—all these constitute marked difficulties in the way of turning new commodities to auction.

The auction business has increased substantially during the past few years. This may be attributed largely to the patronage of large cooperative and private marketing exchanges. Their salaried city representatives and the auction receivers furnish approximately four-fifths of the supplies sold at auction.

The auction disposes of a large volume of goods in a relatively short time. Every lot offered can be sold at some price, regardless of its quality or condition, as all classes of the quantity-buying trade are represented among the buyers.

Auction sales are open to the public, and anyone may buy. The selling is done in the open, and the prices realized are published. This publicity tends to minimize rebates, secret agreements, private adjustments, manipulation of accounts, and similar practices.

Charges and commission rates assessed by the various auction companies lack uniformity but in most cases are less than the cost of selling by private sale.

Auction companies customarily forward the net returns to the shipper within 24 to 48 hours after the sale is made. Credit is often extended to the buyers; but this does not affect the returns to the shipper, as any losses from bad accounts are borne by the auction.

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